

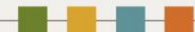


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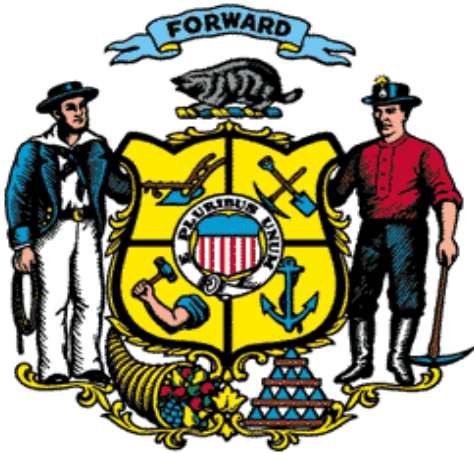
# Tax Increment Financing Basics and Act 70

Todd Taves, Senior Municipal Advisor/Principal

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# TIF Program History



- Original program created by the State Legislature in 1975
  - Recognized the challenges associated with stimulating economic development
  - Means to require cost participation amongst all taxing jurisdictions that ultimately benefit from increased property values



# What is Tax Increment Financing?

- An economic development financing tool
- Community undertakes projects to attract and facilitate development and/or redevelopment, such as:
  - Installation or rehabilitation of public infrastructure
  - Acquisition of land
  - Payment of development incentives
- Community investment is repaid over time by capturing the increased property tax revenue generated within the District



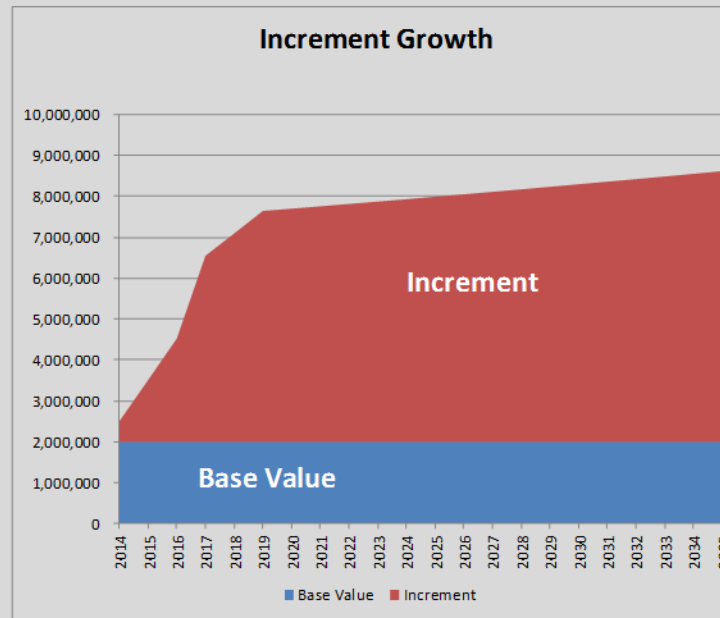
# What is Tax Increment Financing?

- Key acronyms:
  - TIF = Tax Increment Financing (the tool)
  - TID = Tax Increment District (where the tool is used)
- **How it works....**



# What is Tax Increment Financing?

## How a TID Functions and Generates Revenue



The TID receives taxes on the incremental equalized value (value that is greater than the base established by the DOR) at the combined rate of all taxing entities.

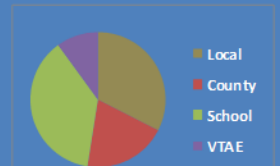
Mill Rate	
Local	6.50
County	4.00
School	7.50
VTAE	2.00
<b>TID Rate</b>	<b>20.00</b>

### TID Rate



All taxing jurisdictions continue to receive their share of the tax levy on the equalized base value of the TID (certified by the DOR)

Mill Rate	
Local	6.50
County	4.00
School	7.50
VTAE	2.00
<b>Total</b>	<b>20.00</b>



Boundary of TID area established by Community  
Base Value of area established and certified by DOR

Base value is "frozen." Appreciation is added to the Increment value.



# Basic TIF Rules – The “But For” Test

- Key underpinning of the TIF program is referred to as the “but for” test
  - “But for” the use of TIF, the proposed development would not occur:
    - as proposed
    - within the same time frame
    - with the same level of value
- Joint Review Board must make a “but for” finding before the TID creation process can occur



# Basic TIF Rules – The “But For” Test

- “But for” rationale on brownfields
  - Private market unlikely to redevelop brownfields when other sites are available (additional cost & risk to build on brownfield)
  - Municipality may have other costs involved, such as public infrastructure upgrades, that it does not have funds to pay



# Basic TIF Rules – District Types

- Five types of TIDs are permitted:
  - Industrial (20 Year)
  - Mixed Use (20 Year)
  - Blighted Area (27 Year)
  - In Need of Conservation or Rehabilitation (27 Year)
  - Environmental Remediation (27 Year)
- Redevelopment of a brownfield site would most likely be done as a “blighted area” TID but could potentially qualify under any of these categories



# Basic TIF Rules – Eligible Project Costs

- Public works & improvements
- Financing costs
- Real property assembly costs (land write-down)
- Professional service costs
- Administrative costs
- Contribution to Community Development Authority or Redevelopment Authority
- Relocation costs
- Organizational costs
- Pro-rated costs of utility infrastructure
- Cash grants (requires developer agreement)
- Environmental remediation
- Projects within ½ mile of district



# Basic TIF Rules – Eligible Project Costs

- Cash grants (i.e. development incentive) could be used to pay the cost of
  - Developing an environmental management system for a manufacturer to participate in Green Tier under Act 70
  - Seeking a certificate of closure for a brownfields site under Act 70
  - Other costs related to participating in program
- Whether a specific cost is TID eligible is a local determination
- Act 70 related costs could be part of a larger overall TID plan and program of costs and improvements



# Project Cost Funding

- Cash grants may be municipally financed (cash up front) or developer/manufacturer financed (cash over time, or “pay as you go”)
  - Municipalities prefer “pay as you go” financing as it shifts risk to developer/manufacturer
  - If funds provided up front, municipality will typically require valuation guarantees or other protection for the public investment
  - Cash grants require a development agreement which will determine how financed and other terms and conditions



# Financial Feasibility

- Whether a TID will work is dependent on generation of incremental value at levels sufficient to pay Project Costs
  - Industrial development tends to be assessed low relative to construction costs
  - Assessed values tends to decline over time due to depreciation absent expansion or reinvestment
  - Input from DOR assessment division important in planning phase to determine financial feasibility



# Summary

- Project must meet the “but for” standard, as evaluated by the Joint Review Board
- Act 70 related costs would be eligible in the form of a “cash grant” (development incentive)
- Project must be financially feasible – all hinges on level of assessable land and improvements created





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**Todd Taves, CIPMA**  
**Senior Municipal Advisor/  
Principal**

(262) 796-6173

[ttaves@ehlers-inc.com](mailto:ttaves@ehlers-inc.com)

